



*February 24, 2006*  
*Meeting Summary of the*  
*Financial Affairs Committee*

**Participants**

Ara Azhderian – San Luis Delta Mendota Water Authority  
Larry Bauman – Bureau of Reclamation  
Brice Bledsoe – Contra Costa WD  
Charlotte Dahl – Westlands WD (telephone)  
Lee Emrick – Colusa County WD  
Mike Hagman – Friant Water Authority  
Garth Hall – East Bay MUD  
Anthea Hansen – Del Puerto WD  
Russ Harrington – CVP Water Association  
Kevin Hart – Sacramento MUD  
Larry Hobbs – Bureau of Reclamation  
Lynn Hurley – Santa Clara Valley WD  
Kathy Kitchell – City of Roseville  
Drew Lessard – Bureau of Reclamation  
Paul Olmstead – Sacramento MUD  
John Pelley – Bureau of Reclamation  
Jesus Reynoso – Bureau of Reclamation  
Ed Roman – Sacramento MUD  
Dick Stevenson – Bureau of Reclamation  
Alan Thompson – East Bay MUD  
Jerry Toenyes – Northern California Power Association

**1. Opening Business**

The February 24<sup>th</sup> FAC meeting was held during the morning at the Mid-Pacific Regional Office in Sacramento. There were no requested adjustments to the January FAC meeting notes at the beginning of the meeting. Prior requested adjustments to the January FAC meeting notes are included at the end of this document. One item was added to the agenda regarding the submission of questions by the FAC to legislative analysts of the House of Representatives for discussion at the March 2<sup>nd</sup> Water and Power subcommittee meeting. The next FAC meeting has been scheduled for March 24<sup>th</sup>, and will be located in Cafeteria Conference Room C-1003. Note that the Cafeteria Conference Room has also been scheduled for FAC meetings for the remainder

of the year as follows: April 21<sup>st</sup>, May 19<sup>th</sup>, June 16<sup>th</sup>, July 21<sup>st</sup>, August 18<sup>th</sup>, September 15<sup>th</sup>, October 20<sup>th</sup>, November 17<sup>th</sup>, and December 15<sup>th</sup>. The April FAC meeting is scheduled for Cafeteria Conference Room C-1002, and all of the subsequent FAC meetings during calendar 2006 will all be held in Cafeteria Conference Room C-1003. The possibility was raised of resuming the site/facility field trips after the FAC meetings. However, nothing specific has been determined. If FAC members are interested in resuming the field trips, please contact Russ Harrington. A retirement luncheon will be held for Alan Thompson after the May 19<sup>th</sup> FAC meeting.

## **2. Review of PUE Issues**

**A. 2207A Status – Scheduling Coordinator Requirement, Spinning A/S Credit, possibility to acquire PG&E transmission lines.** Because Reclamation's Operations staff was unavailable for this meeting, this discussion was tabled until the March FAC meeting.

**B. Post-2948A Cost Review – meeting with WAPA staff.** Jerry Toenyes from the Northern California Power Association provided a briefing of the post-2948A cost issues. Contract 2948A had a five year renewal notice. PG&E used this renewal provision to attempt to pass-through substantial costs – approximately \$50 million in total – to Water Contractors in 2001. This attempted pass-through has resulted in an extended settlement pertaining to four cost components that PG&E tried to pass-through to the Contractors:

Transmission Cost	about \$15 million of total
Scheduling Co-Ordinator Cost	about \$2 million of total
Reliability of Service Cost	about \$20 million of total
Grid Management Cost	about \$14 million of total

The Grid Management Cost was removed from the settlement, because this cost was determined by the Federal Energy Regulatory Commission (FERC) to be a new service and thus payable by the Contractors. The remaining three components were settled such that the Reliability of Service and Scheduling Coordinator Costs were determined not to be passed-through to Contractors; however, the lump sum of \$2.5 million was added to the Transmission cost of \$15 million such that the payable Transmission Cost from the Contractors became \$17.5 million. Note that most of these costs have already been paid on a subject to refund basis. The only exception is the Grid Management Cost, where approximately \$8 million has already been paid. Jerry estimated that only a fraction of the remaining Grid Management Cost was left to be divided among Water and Power Contractors. Note that the Grid Management Cost is not yet settled, but that a settlement may still be possible.

**C. Availability of FY 2004 PUE Sample Data for Power Cost Analysis Purposes.** This item was tabled until the March FAC meeting, and may be removed from the FAC Agenda in favor of off-line resolution between CVPWA and San Luis Delta Mendota Water Authority Staff and Reclamation.

**D. SMUD Request to Bring New Melones Pseudo-Tie into SMUD Control Area / Disposition of Ancillary Service and Spinning Reserves Revenue.** Kevin Hart from the Sacramento MUD (SMUD) attended this meeting to provide information regarding the SMUD Pseudo-Tie proposal. Essentially, the Pseudo-Tie is a method for creating a “virtual connection” by using meters to make one geographic location appear as though it is in another geographic location. This can be used as a tool to bring power facilities that are outside the geographical area of a Control Area inside the Control Area, which is normally not possible.

The purpose of creating this Pseudo-Tie is to assist the Western Area Power Administration (WAPA) better provide Control Area services for which WAPA is responsible. The New Melones has excess generation capacity that WAPA can utilize to improve operating efficiencies, which ultimately would result in power cost savings for both water and power Contractors as well as improved grid reliability. Note that WAPA has a sub-control area within the SMUD Control Area. This Pseudo-Tie is a portion of a pilot program; the California ISO allows the New Melones Pseudo-Tie to reach the WAPA sub-control area, while SMUD allows the Sutter generation plant to be included in the California ISO Control Area.

Attached is a map of the Control Areas within the State of California. The tie-in point for the Pseudo-tie would be near Bellota (in the South-East quadrant of the SMUD Control Area). Note that the physical flow of power may be different than the “virtual flow” created by the Pseudo-Tie.

Through the Pseudo-Tie, WAPA could also utilize New Melones to provide Spinning Reserves. This is essentially a system through spare capacity is made available to the grid. Because Spinning Reserves provide incremental revenues when utilized, this provides offsetting revenues to WAPA. Ancillary Services revenues are also related to reserve capacity, and can also be a source of offsetting revenues. Note that without the Pseudo-Tie, PG&E is the entity that realizes the offsetting revenue benefits from the Spinning Reserves and Ancillary Services at New Melones. Note that PG&E has filed a separate grievance with WAPA pertaining to the reimbursement of Scheduling Co-Ordinator costs incurred under Contract 2207A, which services the San Luis Unit.

Most of the necessary hardware to implement the Pseudo-Tie is already in place. The primary incremental costs would be based on software requirements. These start-up costs are currently under review. The allocation of offsetting revenues generated by Spinning Reserves and Ancillary Services would need to be incorporated into the Power O&M Cost Suballocation agreement. Kevin Hart noted that output at Shasta would improve if New Melones were to be used instead of Shasta to provide the Ancillary Service requirement for the WAPA Control Area.

Contractors asked about the possibility of linking the San Luis Unit to the SMUD or WAPA Control Area. Kevin Hart suggested that the California ISO would probably resist this to avoid losing their customer base. Kevin noted that for most participants the ISO is compulsory as opposed to voluntary participation.

### 3. 2006 FAC Issues Matrix

**A. Budget Workshops – Refining Customer Participation.** On February 2<sup>nd</sup> an introductory meeting was held between Reclamation staff and FAC members. The purposes of the meeting were to determine (1) the output that Contractors would like to receive, (2) the budget data that Reclamation already has available, and (3) how to obtain any data that Contractors would like to have, but Reclamation doesn't currently have available. This meeting was successful in a preliminary context, and a follow-up meeting will be held in April. Reclamation staff suggested that Assistant Regional Director Susan Ramos should attend this meeting.

**B. BOR-WORKS Water Accounting Program Development.** Reclamation has requested that Contractors refrain from accessing the transactions-processing section of the website. The reason is that Reclamation's auditors will be reviewing this website when they return. The Transfer Rate and Tiered Pricing modules are now completed and appear to be working appropriately. These modules will be fully-installed early in March. The next step is to refine the data integrity issues within the system.

Contractors have identified discrepancies between the full-year deliveries and revenues data in Reclamation's year-end reports and the Reclamation monthly reports. Contractors noted that their records match the monthly reports, but that the year-end reports do not appear to provide the correct totals of aggregate monthly data. FAC members who have tried to resolve this discrepancy reported a problem with being shuffled between the Regional Office and the Area Offices. Larry Bauman said that he would engage on this issue. Larry reiterated that the data is input at the Area Offices. There may still be a problem with Area Office staff utilizing Excel spreadsheets instead of the WORKS system to enter data.

Due to scheduling requirements, there is an urgency to getting the final accountings finished. These accountings must be completed as inputs for the 2007 water rate calculations next fall. Reclamation staff has suggested that any corrections that have not yet been received may not be available for correction until the following Fiscal Year. Final Accountings are expected to be returned to customers for one last review period in late February or early March. Reclamation staff wants to have the final accountings closed by the end of March. Contractors noted that errors in any of the final accountings create shifts in the cost allocations among each of the Contractors.

Reclamation staff asked whether Contractors would be willing to shorten the 60 day comment period. The reason given was that this would allow Reclamation to provide the final accountings in a more timely manner. Reclamation staff noted that a few Contractors are now on water years that match the calendar year.

**C. Water Transfer Rate Policy Development.** Reclamation's Regional Office Contracts Branch has sent an outline of the Transfer Rate Policy Implementation Guide to Contractors and other Reclamation staff for comments. Contractors provided comments by the February 17<sup>th</sup> deadline. The Contracts Branch is still working on the larger Implementation Guide document. In addition, Reclamation's ratesetting group is working on completing

examples based on the Implementation Guide. Once completed, the Implementation Guide and accompanying examples will be sent to the Area Offices for comment.

Contractors asked that Reclamation's ratesetting group review the rate calculation for each transfer before it is finalized. Without the accuracy of transfer rate calculations being verified by the ratesetting group, it is possible that the miscalculations in the 2005 transfer rates will occur again in 2006.

Reclamation staff stated that John Davis will make the ultimate decision regarding the transfer rates. Larry Bauman and Donna Tegelman (the ratesetting manager and contracts manager, respectively) have already met, and will meet again. Contractors asked whether John Davis was sufficiently aware of this issue. Contractors requested that Reclamation do the following:

1. Share a Final Draft of the Policy if there are any revisions
2. Answer any unresolved questions
3. Put the finishing touches on the guide

In addition to the Implementation Guide, the revenue crediting notification letter is still pending completion, review by the FAC, and final distribution by Reclamation. Contractors reiterated their request to have John Davis present in a meeting with all relevant Reclamation staff to finalize the Implementation Guide.

**D. Security Cost Reimbursability.** Reclamation staff indicated that they have not been given clearance to discuss the allocation of security costs. As a result, this agenda item was tabled until the next meeting.

**E. Folsom Dam Costs.** Reclamation Safety of Dams (SOD) staff provided two handouts, which are attached. The first handout, which is titled "CVP Communication 2/24/06", discusses Reclamation's SOD work on Mormon Island, and alludes to a partnership with the Corps of Engineers regarding other SOD projects. However, this document does not provide details regarding any Corps of Engineers efforts. The second document, which is titled "Folsom Dam – Safety of Dams – Corrective Action Study", provides a cost summary covering the time period from inception through 2005 as well as cost projections for 2006. Note that this document also is limited to the Mormon Island issue.

In general terms, Reclamation has spent approximately \$32 million in SOD work at Folsom. The vast majority of this expenditure has been to address the Mormon Island liquefaction issue. Reclamation SOD staff reiterated that a comprehensive review was conducted on the Folsom facility in 2000, which determined that corrective action was needed. This led to a scoping study that was completed at the end of 2005. This process has extended into a joint process to look at alternatives for SOD requirements as well as Flood Control improvements. The current workscope has resulted in expenditures to date of approximately \$4 million, and Reclamation SOD staff expects that an initial \$9 million to \$15 million will be spent to complete the feasibility study.

In September 2005, Reclamation SOD staff engaged in a review of SOD alternative actions called the PASS study. Subsequently, a PASS II study was utilized to select an alternative for implementation. Reclamation is now reviewing this draft for critical flaws and is in the process of preparing a report that will be due in early April.

Reclamation SOD staff was requested to provide information regarding the current status of the Corps of Engineers (COE) projects on Folsom. The Folsom Bridge is included as a portion of the COE authorization of \$250 million to cover the Folsom Bridge, LL Anderson, and the Dam Raise. There is a separate cost authority for the COE costs, and the current thinking of Reclamation staff is that these costs will be non-reimbursable. Reclamation SOD staff also stated that the COE and Reclamation will be engaging in a “joint effort” to complete the projects that were originally assigned as SOD to the COE. Reclamation SOD staff stated that the Dam Raise has a SOD component, but didn’t specify how that cost would be allocated. However, the Outlet Modifications project authorization, which has evolved into an Auxiliary Spillway review, does not have a SOD component. Because the Outlet Modifications is exclusively allocated to Flood Control, there will not be any cost from this project allocated to Contractors.

Reclamation is currently reviewing the SOD component of the Folsom Dam Raise, and is tracking these costs in a separate cost authority. The COE is developing a “Top of Dam” study to determine the optimum height of the raise and the corresponding workscope to implement the raise to the optimum height. Reclamation SOD staff indicated that the Dam Raise allocation will be limited to the portion of the raise attributed to SOD.

Reclamation SOD staff said that they are not sure about the current status of the LL Anderson project. They said that it was still attached to the Dam Raise authorization, but that it apparently wasn’t included in the most recent funding plans. Indications are that PCWA has taken the preliminary designs for the LL Anderson facility and are progressing independently of Reclamation or the COE.

Contractors requested a flow chart detailing the potential cost shares of the various Folsom Dam Modifications that have been attributed a SOD cost component. Reclamation SOD staff said that the dialogue to develop this flow chart is ongoing.

All SOD costs for the current programs are still carried in the Construction In Progress account. Reclamation is starting to develop teams that will work through the cost allocation process. Contractors have been told that cost allocation data will be shared with Contractors only after the conceptual review has been completed. The review with Contractors may be through the three member workteam (determined to be Mike Hagman, Jerry Toenyes, and Russ Harrington) that was established at Reclamation’s request to serve as a conduit for the SOD financial issues.

Sacramento MUD (SMUD) is working with the City of Folsom to find an alternative location for a planned switchyard connection between SMUD and the Western Area Power Administration (WAPA). The original location for this switchyard connection has been displaced by the planned site of the Folsom Bridge. There is a “tap-in” to the west of the plant that is a necessary point of access. The Folsom Power Plant is becoming a critical component of the facility. Paul Olmstead is working directly with Reclamation and WAPA on this matter. SMUD has been

attempting to get the COE to address this issue during the planning for the Folsom Bridge. SMUD has stated that it doesn't want to delay the Folsom Bridge in search of a solution to the switchyard connection issue, but that the ability to tie to the WAPA grid is becoming critical to WAPA. In the event that the switchyard connection site is displaced by the Folsom Bridge, there is the question of who would pay the costs and how these costs would ultimately be allocated among water and/or power contractors. SMUD has provided several documents containing information regarding this matter, which are attached.

**F. Direct Billings.** Regarding the requirement to Direct Bill the Safety of Dams costs, Contractors stated that they still haven't seen any legislation that requires annual installment payments. This issue is still under review in the Denver Office.

Regarding the Direct Billings issue for Project Use Energy, Reclamation staff stated that adjusting the WORKS program would take too long and would be too expensive. Contractors noted that the power revenue recognition requirements can be met through adjustments to the payment recap forms. It would be relatively simple to segregate the PUE components of the rates for inclusion in the payment recap forms. Reclamation noted that they are already looking at other options. Another alternative proposed by Contractors would be simply to multiply the PUE component of the water rates by an estimate of the cumulative AF delivered, and journal this amount as power revenue. Generally Accepted Accounting Principles (GAAP), including the GAAP guidelines for the Federal Government, provide for the ability to record estimated revenue. Contractors stated that this issue pertains to Income Statement and Balance Sheet reporting.

Regarding the Trinity PUD Direct Billings issue, Reclamation staff stated that the legislation requires that these payments be collected in advance. A meeting with the Solicitor to review the Trinity PUD legislation has now been scheduled. Contractors noted that the legislation didn't seem to require advance payments. Reclamation staff noted that these payments were not collected during 2005 or 2006; for each of those years, the Trinity PUD costs were recovered through the final accountings. Reclamation staff also asked about the question of prioritizing O&M payments. Reclamation added that the solution needed to be vetted through all Contractors, as opposed to only the members of the CVPWA.

**4. Reclamation's Responses to Comments on the 2006 Draft Water Rates.** Larry Bauman noted that he will be making minor changes to the current draft of the responses. Ratesetting staff indicated that a number of small changes have been incorporated into the final 2006 rates, and that some of the changes were based on the Contractors' comments on the draft rates. Larry noted that the response from Reclamation must be through the recipient of the letter; in other words, the person to whom the Contractors' comments were address must also be the person through whom Reclamation's responses are returned.

**5. Submission of Questions by the FAC to Legislative Analysts for Inclusion in the Water & Power Subcommittee Hearing on March 2<sup>nd</sup>.** On the afternoon of Wednesday, February 22<sup>nd</sup>, House of Representatives legislative analyst Michael Correia sent the CVPWA an e-mail asking for questions that Contractors would like to have addressed at the Water and Power Subcommittee hearing on March 2<sup>nd</sup>. The due date for sending questions was the close of

business on Monday, February 27<sup>th</sup>. On Wednesday afternoon, Mr. Correia's e-mail was distributed to the FAC for response, and this topic was raised again at the end of the FAC meeting.

The primary questions/comments during the FAC meeting were (1) that the extraordinary O&M expenses are reimbursable within a single year and (2) that the basis for determining \$10 million of \$50 million in post 9/11 security cost to be reimbursable wasn't made available to Contractors. These questions have since been forwarded by e-mail from CVPWA staff to Mr. Correia, along with the following supplemental questions. The bolded questions were identified as questions of primary importance.

Folsom Safety of Dams Projects:

- 1) **What new funding (if any) will be provided for the Folsom Bridge, and under what authorization/appropriation? Would any new funding be reimbursable? If so, what is the justification for reimbursability? Note that transportation is not an authorized CVP purpose and that the Bridge will be neither owned nor operated by the CVP.**
- 2) What funding will be provided to the LL Anderson and Folsom Dam Raise projects, and how were these amounts determined? Is the Dam Raise a good cost/benefit investment, given that the storage capacity increase from the Dam Raise is only projected to be approximately 100 thousand AF? Would the Dam Raise also require further strengthening of the surrounding Saddle Dams (including Mormon Island), and could this increase the probability of a failure at the Mormon Island saddle-dam? Taken by itself, would a Dam Raise project meet the Cost/Benefit ratio required by the COE? Would the Auburn Dam represent a more cost effective solution?
- 3) Which agency will receive the 2007 appropriations for the different Folsom Safety of Dams projects?

Security Costs:

- 1) What differences are there in the 2007 Security Costs from Prior years? Are new activities being implemented? Are any prior year projects now completed and no longer being funded as of 2007?
- 2) What portion of the budget for Security costs are post/9-11 and what portion are "traditional" security measures?
- 3) **What is the breakdown by CVP facility for the Security Cost Budget? Is the budget still based on security specifically for the Shasta D&R, Folsom D&R, Tracy Switchyard, Friant D&R, and San Luis D&R facilities? How much of the total Security cost budget will be allocated to each of these facilities, and what was the basis for the allocation to each facility?**
- 4) What is the budget for the Hardening Costs and Anti-Terrorism costs? Will these costs remain non-reimbursable after 2007? Will this portion of the budget rise over time, or are these one-time expenditures?
- 5) Should the Security Cost expenses pertaining to the Dam & Reservoir facilities be allocated as Safety of Dams expenditure, on the basis that the purpose of the Security Cost expenditures is to prevent a structural breach of the Dam?

CalFed:

- 1) What funding levels are being allocated to the Pelagic Fish Decline Study? Will equal funding levels be provided to review different potential causes of this fish decline?
- 2) **Will funds be ear-marked within the 2007 budget for continued review of the new Storage projects proposed under CalFed (Sites, Shasta, Temperance Flats, Los Vaqueros, or other)? If so, which ones, and how much?**
- 3) Regarding the Delta Levees and flood control issues, there are several studies underway to analyze various aspects of the Delta Levees. These studies include the Delta Risk Management Study (DMRS) and the Delta Vision Study, and are to be completed by the end of 2007. Given the fact that there will be a much better understanding of the Delta Levee issues after these

studies are completed, would it be better to wait for completion of these studies to appropriate funding for a long-term Levee improvement solution? While short-term funding for maintenance and emergency repairs would certainly be necessary in the meantime, it is better to wait until after 2007 to fund a strategic solution?

### **Requested Adjustment to December FAC Meeting Notes by Katherine Thompson**

Some clarifications on the meeting notes regarding BORWORKS.

-Bonnie Hood is Ratesetting's team lead for BORWORKS, not Reclamation's.

-The Change Management Board will approve and prioritize upgrades, rather than identify completion schedules.

-Power Accounting may or may not be addressed by BORWORKS. We are still evaluating options. (This fact is noted later in your minutes.)

-BORWORKS is an accredited system and, as such, is complete (and capitalized). The actions are improvements to an existing system (eg. new versions of the same system). This the sentence regarding no completion schedule should be struck as the system in operation.

-BORWORKS is the water accounting system for water contractors and as such, is the revenue accounting system for MP Region. I am not aware it is used for other purposes, as is somewhat implied by the notes. A bit misleading here.

-Revenue reporting requirements related to power use energy revenue, not all revenue (first full paragraph, page 3).

-The statement regarding the Jarvis contractor is incorrect. First, the contractor was not named. Second, we did not state that the system was salvageable and provided something to use in the interim. In fact, the contractor delivered a system that was certified and accredited for use as required by FISMA. My comments were related to a much more elaborate system that was apparently envisioned and desired. A more elaborate system that automate additional functions, such as on-line user interfaces, would be considerably more expensive than the system being used.

Regarding direct billing to compensate Trinity PUD, the legislation is clear that Reclamation is to collect funds from contractors and remit to Trinity.

NEXT MEETING: I am out of town on leave 2/24. I'd like to discuss BORWORKS costs at the March meeting. Can we defer that item on the agenda?